



United States Department of Agriculture  
Rural Development

Virginia State Office

**VA AN NO. 457 (1940-L)**

February 3, 2006

**SUBJECT:** FY 2006 Allocation of Direct Section 502  
And Section 504 Loan and Grant Funds

**TO:** Rural Development Managers  
Area Directors  
USDA Rural Development, Virginia

**PURPOSE/INTENDED OUTCOME:**

The purpose of this Administrative Notice (AN) is to sub-allocate FY 2006 Single Family Housing Direct Section 502 Loan and Section 504 Loan and Grant funds to the Area offices as provided for by 1940-L, Exhibit A, Attachment 2, Part II, Subpart C.

**COMPARISON WITH PREVIOUS AN:**

There have been no previous ANs regarding this subject during FY 2006.

**IMPLEMENTATION RESPONSIBILITIES:**

Our official allocation of funds for the direct Section 502 and Section 504 loan and grant programs for fiscal year 2006 has been received. **Attachment 1** is the spreadsheet, which provides the allocation for the respective Areas and includes the individual county/city information on which those allocations are based. National directives state that due to these funds being sub allocated to the area level, the Area Director will make funds available on a first-come, first-served basis to all offices at the field or area level. The allocations are as follows:

- 1. Section 502 Direct Nonsubsidized Funds** (loan making and servicing): There are **no** FY 2006 funds designated for loans for nonsubsidized loan making or servicing. Subsidized funds may be used for qualified very low and low income applicants when the payment assistance formula shows there is no need for the subsidy. This assistance will be taken from your subsidized regular funding. If applicants appear eligible for the Guaranteed Rural Housing Program, they should be requested to seek a guaranteed loan.

**EXPIRATION DATE:** September 30, 2006

**FILING INSTRUCTIONS:**

Preceding RD Instruction 1940-L

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14<sup>th</sup> and Independence Avenue, SW, Washington, DC 20250-9410 or call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

2. **Credit Sale Authority.** Credit sale funds are available only for non-program sales of Real Estate Owned (REO) property. There will be no State or Area redistribution of non-program credit sale authority; rather funds will be available on a first-come, first-served basis. \$10 million has been set up by the National Office. Requests should be submitted using **Attachment 2**. The requested amount and the amount reflected in MortgageServ must match in order for the request to be considered. The address of the property should be on the **RHC/OBL** screen. The procedure for Single Family Credit Sales is found in the DLOS Loan Origination Training Manual under Special Loans beginning on page 45 of the 10/04 revision. Remember to follow Chapter 11 in Handbook 1 for processing credit sales since this authority is only for non-program loans during FY 2006.
3. **Program Sales of REO Property.** Nationwide \$25 million has been set aside for program sales of program REO property. There will be no state distribution of these funds. Funds will be available on a first-come, first-served basis. Requests should be submitted using **Attachment 2**. The requested amount and the amount reflected in MortgageServ must match in order for the request to be considered. The address of the property should be on the RHC/OBL screen. Program loans for the sale of REO property will be processed like any other Section 502 Direct loan except for a few changes beginning on page 42 of the DLOS Loan Origination Manual under Special Loans (revision 10/04). Use the program type codes listed in the code index rather than the codes in the in this section of the DLOS Training Manual. Under **loan grouping** on the **New Application Additional Set up** Screen, make sure you click “**loan or in grnt**” rather than REO. If you click reo you will get an error message when you try to set up the closing agent and it will say “ineligible to close/disburse”.
4. **Section 509 Compensation for Construction Defects.** All claims for compensation for construction defects must be submitted to the National Office for authorization of funds prior to approval. After receipt of the authorization, claims may be approved and submitted to the Finance Office for funding.
5. **Targeted Areas:** We do not have any targeted counties this fiscal year.
6. **Section 502 Direct RH Loans:** We are holding a small reserve in the state office to fund the following types of applications. Our reserve this year is larger than normal in order to be able to accommodate your needs.
  - Applications after the area allocation have been used. Hardships include current homeowners in danger of losing a property through foreclosure, and other circumstances determined on a case by case basis. The hardships will have to be dire hardships with documentation from former landlords, doctors, etc. Funding priority will be given to homeless cases accompanied by a certification from a third party entity such as an agency for the homeless.
  - Financing for the purchase of REO when the National Office reserve has been exhausted.

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- The state portion for the Homeowner Partnerships (RHLs and CDFIs). Make sure the CDFI and RHLs are coded correctly in MortgageServ, otherwise we won't get credit or reimbursed for these loans.

Any loan application you receive for the above categories should be processed upon receipt. The funds to establish these loan obligations come out of the state office reserve. The Area Office should fax a copy of **Attachment 2** to Phyllis Leonard in the Single Family Housing Division. The Area Office will be notified if and when the loan can be funded. After the loan has been funded, fax a copy of the MortgageServ screen "**RHCDS/OBLIGATION REQUEST VALIDATION**" to Phyllis's attention in the SFH Division or you can send the screen while in MortgageServ by clicking on File, Send Page and addressing to [phyllis.leonard@va.usda.gov](mailto:phyllis.leonard@va.usda.gov).

Leveraged loans funds will come out of the Area allocation this fiscal year. Refer to unnumbered letter dated December 12, 2005 (HB-1-3550, Chapter 10) on the leveraged loan policy for FY 2006.

**7. Section 504 Housing Repair Loans and Grants.** We are holding a small reserve for Section 504 Loans and Grants. The Section 504 Grant funds are for extreme hardships. **Priority for the grant funds will be given to Areas that have used at least 50% of their Section 504 loan funds and the request is a combination loan and grant or has participation funds.** The request must also meet the following conditions.

- Be an extreme hardship case requiring a significant priority in funding, ahead of other requests, due to severe health or safety hazards, or physical needs of the applicant. Section 504 grant requests must be reviewed and sufficient documentation must be provided to support the hardship. The following information must be considered and included:
- A clear determination that the 504 grant applicant is unable to repay a section 504 loan. Note: A copy of the applicant's Form RD 1944-3, "Budget and/or Financial Statement" (front and back) must be submitted with the hardship request.
- The applicant is unable to obtain financial assistance from sources other than the Rural Housing Service loans or grants. **List the agencies and organizations contacted.**
- The applicant lacks personal resources that can be utilized to meet their needs.

**Once you have used your allocation for the Section 504 loan and grant program, we will accept requests for hardship cases with the above documentation and Attachment 2. These requests will be reviewed and you will be notified upon approval.**

**8. Empowerment Zone (EZ), Enterprise Community (EC) Earmark.** Virginia does not have any counties in this category this fiscal year.

**9. Underserved Counties and Colonias.** Virginia did not have any counties in this category this fiscal year.

**Availability of the Allocation:** Funds for the direct Section 502 and the Section 504 loan and grant program are distributed by quarters from the National Office as follows: **50% through the first quarter, 75% through the second quarter, and 100% through the third quarter. We are authorizing all of the Areas to obligate up to 100% of their Section 502 very low, low and Section 504 loan and grant allocation.** Area Offices please do a good job of tracking your

funds and do not exceed your allocation without prior approval from the Single Family Housing Division.

**Pooling:** The State Office has scheduled a **year-end pooling date of Friday, May 5, 2006**. All funds allocated to the Area Offices not obligated by close of business May 5, 2006 will be pooled. These funds will be made available administratively. This means that all information must be updated in UniFi, uploaded to MortgageServ and **obligated by close of business May 5, 2006. DO NOT** obligate funds just to use your allocation. This means that the loan/grant must be ready for obligation including any final bid proposals or appraisals. With the demand for section 504 grant funds, **do not** obligate unless you are ready to start the work.

The National Office is not anticipating a mid-year pooling. **Year-end pooling** is tentatively scheduled for **close of business Friday, July 14, 2006**, at which time all unobligated funds will be placed in the National Office reserve and will be made available administratively.

Each quarter the field office staff will select enough applications from the waiting list to assure that they will have enough eligible applicants to utilize 150% of the allocated loan funds. The loan approval official should realize that this may require the screening of several applications to obtain enough eligible applications to utilize 150% of allocated funds. This does not mean that, for instance if you were to be allocated enough funds to approve four (4) loans that you would be limited to the selection of six (6) applications (150% of anticipated number of approvals) for further processing. In fact, you may need to select 10-15 or more applications to obtain the 150% figure of six (6) eligible applications. In other words, select a sufficient number of applications to have 150% of what you need on hand to fully utilize your funding and be in a position to utilize any administrative funds available as a result of either the state or national pooling.

If you have any questions, please feel free to contact James Reid or Phyllis Leonard in the Single Family Housing Division.

/s/ Philip H. Stetson

PHILIP H. STETSON  
Acting State Director

Attachments 1 – 2